FILED
JUL 28 1941
CHARLES ELMORE CROPLEY
CLERK

IN THE

Supreme Court of the United States

OCTOBER TERM, 1941

No..... 316

314-65

E. A. LYNCH, Receiver in Bankruptcy of the Estate of Leonard J. Woodruff, Bankrupt, and RUPERT B. TURNBULL, and LEONARD J. MEYBERG, Its Attorneys,

Petitioners,

vs.

P. M. JACKSON, Trustee in Bankruptcy of the Estate of Leonard J. Woodruff, Bankrupt and The United States Circuit Court of Appeals for the Ninth Circuit,

Respondents.

Petition for Writ of Certiorari to the United States Circuit Court of Appeals for the Ninth Circuit, and Brief in Support Thereof.

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SUBJECT INDEX.

PAGE

Petition for writ of certiorari to the United States Circuit Court of Appeals for the Ninth Circuit, and brief in support thereof 1

Questions presented 2

Summary statement of the matter involved..... 6

Jurisdiction 11

Statement of the case..... 12

Specification of errors..... 12

Argument and authorities in support of petition..... 15

1. By the withdrawing of the concurring opinion of Denman, C. J., there remains only the opinion of the Hon. Clifton Mathews for reversal and the dissenting opinion of Hon. William Healy to sustain and confirm the opinion of the lower court..... 15

2. Upon the first appeal every question was raised, fully considered and decided. Those questions that appellant could have raised, but failed to present are waived and can not be subsequently urged..... 16

3. In almost every involuntary proceeding in bankruptcy where a receiver is appointed, it is upon the request of the petitioning creditors. When the receiver requires legal advice, the courts appoint the same attorneys for the receiver 17

4. The first opinion of the Circuit Court of Appeals for the Ninth Circuit is in accord with the law as expressed by the other Circuit Courts of Appeals, particularly the Third Circuit (Loesser v. Dallas, 102 Fed. 909), the Eighth Circuit (Fidelity Trust Company v. Gaskell, 195 Fed. 865), the ..... Circuit (Kirker v. Owings, 98 Fed. 511), the Second Circuit (In re Isaacson, 174 Fed. Reporter 406; Butler v. Ellis, 45 Fed. Reporter 2, 951, 953) 17

Authority to fix compensation of receiver and attorney for receiver 20

PAGE

The District Court for the Southern District of California properly exercised its jurisdiction over property of the bankrupt within its territorial limits, which property was not scheduled by the bankrupt in his voluntary Oklahoma proceedings 24

The jurisdiction in this case is either primary or ancillary. If primary, the following applies 26

If the jurisdiction in this case is ancillary, the following applies 28

A District Court may not exercise its power outside its respective territorial limits 28

There was no final judgment in the Oklahoma District Court which was disregarded 32

5. Appellate courts have established and maintain the universal rule—no interference with discretionary acts of trial courts, such as fixing of fees and allowances, unless a clear abuse of discretion or an obvious mistake of law appears in the record 33

6. Answer to the factual contentions concerning the amount of the attorneys' fees allowed 35

7. The findings and orders of the District Court in allowing compensation were not in violation of General Order No. 44 38

Conclusion 45

INDEX TO APPENDIX.

Opinion of the Circuit Court of Appeals, dated May 10, 1940—
Judge Wilbur 1

Opinion of the Circuit Court of Appeals, dated May 1, 1941—
Judge Mathews 8
Judge Denman 17
Judge Healy 18

Opinion of the Circuit Court of Appeals, dated June 30, 1941—
Judges Denman, Mathews, Healy 21

TABLE OF AUTHORITIES CITED.

CASES. PAGE

American Range and Foundry Company, In re, 41 Fed. (2d) 845, 7 A. B. R. (N. S.) 170 (D.C. Minn.) 34

Babbitt v. Deutcher, 216 U. S. 101 ..... 17, 27, 29

Benedict, In re (D.C.), 140 Fed. 55 29

Butler v. Ellis, 45 Fed. (2d) 951 ..... 17, 18, 19

Calhoun et al. v. Stratton et al. (C.C.A. 6), 61 Fed. (2d) 302, 22 A. B. R. (N. S.) 392 33

Einstein, In re, 245 Fed. 189 20

Elkins, Petitioner in the Matter of Madison Steel Co., Bankrupt, 216 U. S. 115 (C.C.A. 2d) 31

Fidelity Trust Co. v. Gaskell, 195 Fed. 865 ..... 21, 23, 28, 29, 30

Garneau, In re, 11 A. B. R. 679, 127 Fed. 677 (C.C.A. Ill.) 25

Giannini, Inc., In re G. W., 90 Fed. (2d) 445 ..... 38, 39

Grant, In re (C.C.A. 2), 238 Fed. 132, 38 A. B. R. 210 33

Isaacson, In re (C.C.A. 2d), 174 Fed. Rep. 406 ..... 20, 21

Jackson v. Irving Trust Co., 310 U. S. 621, 85 L. Ed. 10 16

Jackson v. Lynch, 311 U. S. 674 ..... 2, 9

Jackson, P. M., v. Lynch, Case No. 9401, ... Fed. Rep. (2d) 1003 2

Jackson, P. M., v. Lynch, Case No. 9612, decided May 1, 1941 3

Lathrop v. Drake, 91 U. S. 516, 23 L. Ed. 414 29

Loeser v. Dallas (C.C.A. 3d), 192 Fed. 909 ..... 22, 23

Maryland Casualty Co. v. Buffum, 74 Fed. (2d) 289 33

Nixon v. Michaels, 38 Fed. (2d) 420 24

Peiser, In re (D.C.), 115 Fed. 199 29

Robinson, In re (D.C.), 179 Fed. 724 29

Rogers-Pyatt Shellac Co., In re, 43 Fed. (2d) 863 38

PAGE

Staunton v. Wooden, 179 Fed. 61, 102 C. C. A. 355 29

Stratton, Inc., In re H. L., 51 Fed. (2d) 984 38

Sutter Bros., In re (D.C.), 131 Fed. 654 29

Sutter, In re, 46 A. B. R. 267, 270 Fed. 248 25

Thompson v. Maxwell Land Co., 168 U. S. 451, 18 S. Ct. 121, 42 L. Ed. 539 16

Titus v. Wallick, 306 U. S. 282 16

United States v. Gavin Craig, 81 Fed. (2d) 816 7

MISCELLANEOUS.

General Orders in Bankruptcy, Order No. 6 ..... 8, 21, 32

General Orders in Bankruptcy, Order No. 44 ..... 4, 5, 13, 38, 40

Local Rule No. 82 of the District Court 40

Local Bankruptcy Rules of the District Court for the Southern District of New York, Rule 8 39

1 Remington on Bankruptcy, p. 71 25

1 Remington on Bankruptcy, p. 72 25

1 Remington on Bankruptcy, p. 76 25

STATUTES.

Chandler Act, Sec. 2a, Subd. (20) 3, 30

Judicial Code, Sec. 240, Subd. (a) 12

11 United States Code, Annotated, following Sec. 53 4

28 United States Code, Annotated, Sec. 347 12

United States Compiled Statutes, 1901, p. 3420, as amended by Act June 25, 1910 28

United States Compiled Statutes, Supp. 1911, p. 1491 28

IN THE

Supreme Court of the United States

OCTOBER TERM, 1941

No.....

In the Matter of

LEONARD J. WOODRUFF,

Bankrupt.

P. M. JACKSON, Trustee in Bankruptcy,

Appellant and Respondent,

vs.

E. A. LYNCH, Receiver in Bankruptcy,

Appellee.

E. A. LYNCH, Receiver, RUPERT B. TURNBULL and LEONARD J. MEYBERG, his Attorneys,

Petitioners.

Petition for Writ of Certiorari to the United States Circuit Court of Appeals for the Ninth Circuit, and Brief in Support Thereof.

To the Honorable Chief Justice, and to the Associate Justices of the Supreme Court of the United States:

The petitioners, A. E. Lynch, receiver in bankruptcy, Rupert B. Turnbull and Leonard J. Meyberg, respectively, pray that a writ of certiorari issue to review a decision made and entered May 1, 1941, and amended by the Court June 30, 1941, in the United States Circuit Court of Appeals for the Ninth Circuit.

Questions Presented.

POINT 1. If on May 14, 1940, the U. S. Circuit Court of Appeals (Ninth Circuit) decided:

> "We think it was proper for the court below to provide for payment to those who had cared for the bankrupt's property under its direction before ordering its surrender to the trustee. (See 11 U. S. C. A., Sec. 11, sub. (20).)
>
> "It follows that the court below was right in retaining control of the bankrupt's property until the receiver's accounts were settled and provision made for his fees and those of his attorneys as an incident to that order."
>
> *P. M. Jackson v. Lynch,* Case No. 9401, reported in Federal Reporter, 2d Series, 1003.

Thereafter the appellants, being dissatisfied with this ruling, filed a petition in this, the U. S. Supreme Court, for a writ of certiorari, which this Court denied. (*Jackson v. Lynch,* 311 U. S. p. 674.)

This question having been finally settled, the Court below proceeded to allow such fees to its receiver and its attorneys. After such allowances were made the said P. M. Jackson, being dissatisfied with the amounts allowed by the lower court, again appealed to the U. S. Circuit Court of Appeals (Ninth Circuit). Upon this second appeal the appellate court again examined the questions raised on the first appeal and reversed its said former ruling, to wit:

> "The final paragraph of the order under review provides, in substance, that the property of the estate now in the Southern District of California shall not be removed therefrom until the receiver's ex-

penses and the compensation of the receiver and his attorneys have been paid . . . The property referred to is in the hands of the Oklahoma court's trustee and, therefore, in the custody of the Oklahoma court. It is not in the custody or subject to the control of the California court."

P. M. Jackson v. Lynch, Case No. 9612, decided May 1, 1941 (which is now before this Court upon petition for writ of certiorari).

The *Chandler Act,* Sec. 2a, sub. (20), effective September 22, 1938, definitely determined the foregoing question. Prior to the enactment of this act, there was a difference of opinion among the Circuit Courts as to the right of ancillary courts to sell assets, fix fees, and pay expenses. The Chandler Act definitely settled the controversy.

In the first appeal, No. 9401, and in the files of this, the U. S. Supreme Court No. 285, where certiorari was denied, the said U. S. Circuit Court of Appeal followed the Chandler Act. Now in this second appeal, between the same parties, the same court reaches back to the first appeal and reverses itself. It is the first decision of an appellate court upon this provision of the new Chandler Act.

Can both decisions stand?

POINT 2. If the Circuit Court of Appeals (Ninth Circuit) has by a lengthy opinion decided that an allowance of fees by the lower court to its receiver and attorneys was proper, and the said lower court thereafter designates the amounts of such fees and the same parties in the same case appeal to question the amounts allowed,

can such appellate court in this subsequent appeal again consider the questions already decided in the prior appeal and reverse its former ruling?

Is the rule of the "law of the case" here applicable?

POINT 3. Where the Court below, after being duly advised, made an allowance to attorneys for representing a receiver in bankruptcy, is the Circuit Court of Appeals justified in setting aside such allowance because said attorneys also represented a petitioning creditor, upon the theory that such attorneys thereby represented adverse interests?

Especially where the Court below found that the facts concerning any alleged adverse representation were disclosed to it, and Order 44 of the General Orders in Bankruptcy provide (11 U. S. C. A., following Sec. 53):

> "If without disclosure any attorney acting for a receiver or trustee or debtor in possession shall have represented any interest adverse to the receiver, trustee, creditor or stockholders in any matter upon which he is employed for such receiver, or debtor in possession the court may deny the allowance of any fee to such attorney or the reimbursement of his expenses, or both."

To represent a trustee in bankruptcy, who passes on creditors' claims and also to represent a creditor might be representing adverse interests.

But do adverse interests exist where in bankruptcy an attorney represents petitioning creditors and, after a receiver is appointed to protect and hold the assets, pending

the appointment of a trusteee, such attorney is appointed attorney for such bankruptcy receiver?

If the answer is in the affirmative, then does not this Order 44 leave the matter to the discretion of the lower court?

POINT 4. If the question has been raised by a party to the proceeding before the trial court and the trial court has made a finding upon uncontradicted evidence that shows a full disclosure to it that counsel for the receiver were counsel for a large judgment creditor, can the appellate court disturb this finding with no other evidence or facts to contradict?

POINT 5. If the District Court has made its order on the necessity for the employing of counsel, and the Court has made a finding fixing the value of their services on uncontradicted testimony, is it within the province of the appellate court to disallow such compensation without any different evidence or circumstances being shown?

POINT 6. Where three justices sitting as a court of appeal reverse a judgment appealed from and three separate opinions are filed, each by an individual judge, (a) one reversing the judgment, (b) the second concurring in the reversal, and (c) the third dissenting and deciding for an affirmance of the judgment and where later the Court denies a petition for rehearing and in such order the justice who concurred in the reversal entirely withdraws his concurring opinion, leaving the record silent as to his decision, is the judgment affirmed or reversed?

Summary Statement of the Matter Involved.

On March 20, 1939, the District Court of the United States for the Southern District of California, rendered its judgment in favor of M. E. Heiser and against L. J. Woodruff, for the sum of approximately $275,000.00. The judgment debtor Woodruff had been a resident of Los Angeles, California, for approximately 20 years immediately preceding the date of said judgment. Three days prior to the expiration of the stay of execution on that judgment, Woodruff left California and appearing in the Eastern District of Oklahoma filed his voluntary bankruptcy proceedings alleging that his principal place of business had been for 6 months last past in the Oklahoma jurisdiction, listing in excess of $300,000.00 assets and over one million dollars in debts. Woodruff did not schedule assets in California of a value in excess of $140,000.00.

Judgment creditor Heiser filed an involuntary petition in bankruptcy in the Southern District of California seeking adjudication of Woodruff as a bankrupt. Meyberg and Turnbull appeared of record as attorneys for the petitioning creditor, a then judgment creditor. On Heiser's application the District Court in California appointed E. A. Lynch, one of your petitioners, as receiver, to take charge of, and he did take care of, the California assets. The order of the Court appointing Lynch as received recited on its face:

> "Upon motion of Rupert B. Turnbull, Attorney for said petitioner."

Upon his appointment, Lynch, the receiver, immediately qualified and upon investigation learned the char-

acter of Woodruff the bankrupt. He ascertained that Woodruff was a person who had *loaned* some $12,000.00 to the presiding judge of the California District Court of Appeal at a time when Woodruff had litigation pending in California, and he ascertained that said judge had been later convicted of obstructing justice, in the United States District Court of the Southern District of California, and that said conviction had been affirmed by the United States Circuit Court of Appeals for the Ninth Circuit. (*U. S. v. Gavin Craig,* 81 Fed. (2d) 816.) He ascertained that there were undisclosed assets in California, consisting of extensive personal property (California bankruptcy appraisers fixed the value at $84,000.00); $30,000.00 uncut sapphires (unappraised by court) and other personal and real property, were not scheduled by Woodruff in his Oklahoma bankruptcy proceeding.

Woodruff, testifying in the Oklahoma proceeding before the Oklahoma referee in bankruptcy, testified that $50,000.00 had disappeared from his Los Angeles stores and had been lost to him by the theft of unnamed third persons. Woodruff had been either plaintiff or defendant in some 75 pieces of litigation in Southern California, some of which were still pending in the courts at the date of his bankruptcy. Lynch as receiver in California petitioned the District Court for an order authorizing him to employ Meyberg and Turnbull, two of the petitioners herein, as his counsel. The District Court made an order authorizing such employment. Lynch as receiver then petitioned the Court for instructions as to his conduct and the expenditure of funds relative to the examination of the bankrupt in Oklahoma and his, the

receiver's, conduct in California. Said petition, among other things, recited:

> "Your petitioner is informed by his counsel, Rupert B. Turnbull, who is also counsel for petitioning creditor and another creditor herein, etc., etc."

These petitions were in the usual form, duly verified, filed, heard by the District judges and written orders were made thereon directing the receiver in his conduct and directing the conduct of Meyberg and Turnbull. The receiver and his counsel carefully obeyed these orders and carried out the duties so imposed upon them in every respect. No claim has ever been made to the contrary. One of these orders instructing the receiver and his counsel as to their conduct, over the signature of the District judge, read in part:

> "But there is also pending a petition by the bankrupt in the Eastern District of Oklahoma, all of which facts were originally disclosed to this court upon the filing of the original creditor's petition herein."

Several months thereafter the District judge in charge of the Eastern District of the Oklahoma bankruptcy of Woodruff made his order ordering the consolidation of the California and Oklahoma bankruptcies, this under General Order 6. The District judge in charge of administration in California made an order requiring Lynch as receiver to make an immediate report and to file his petition for compensation, and requiring counsel for the receiver to file their report for compensation. P. M.

Jackson, the Oklahoma trustee in bankruptcy for Woodruff, then came to California and contested the order so made by the California court, contending that all of the papers in the case should be transmitted forthwith to Oklahoma without any necessity on the part of the California District Court to make his own receiver Lynch account for what property he had taken in California. The California District Court ruled that before sending the papers and files back to the Oklahoma District Court, he would put his own house in order and close the pending receivership in the ordinary legal manner. An order was made that the receiver and its attorneys file petitions for fees and that the assets in the custody of the receiver be retained until costs of administration and expenses are paid.

The Oklahoma trustee Jackson feeling aggrieved at this order took a review to the Ninth Circuit where the action of the lower court was affirmed. (111 Fed. (2d) 1003.) From this decision the Oklahoma trustee Jackson again appealed petitioning the Supreme Court of the United States for certiorari which was denied. (*Jackson v. Lynch,* 311 U. S. p. 674.) Upon the filing of the mandate in the California District Court that court then proceeded to settle receiver Lynch's account and fixed the compensation of the receiver and fixed the compensation of his counsel, Meyberg and Turnbull, at $7500.00.

From these orders allowing the amount of the fees, the Oklahoma trustee Jackson appealed to the Ninth Circuit. The Ninth Circuit upon the hearing of that review, by

divided opinion, held that there was no necessity for the receiver having general powers, but was a mere custodian and his compensation should be fixed on that basis. The Court by said divided opinion also held that there had been no necessity for the employment of attorneys Meyberg and Turnbull and held it was an abuse of discretion to employ them, and an abuse of discretion to pay them any compensation, and reversed the allowance of $7500.00 as made to such counsel, and of $1700.00 from the compensation of Lynch the receiver, leaving Lynch approximately $268.00 for his entire services. Further, that payment of fees was within the jurisdiction of the Oklahoma court and not the California court, thereby reversing its decision made upon the prior appeal.

This opinion of the United States Court of Appeals for the Ninth Circuit was in the form of three written opinions, one of which was a dissenting opinion. The opinion of the Court was written by the Hon. Justice Clifton Mathews, a partial concurring opinion by the Hon. William Denman, a wholly dissenting opinion by the Hon. William Healy. Appellees Lynch, Turnbull and Meyberg filed a petition for rehearing, whereupon the said Circuit Court for the Ninth Circuit made its order as follows:

> "The concurring opinion of Denman, C. J., is ordered withdrawn. William Denman, C. J."

Certain portions of the opinion of Judge Mathews were stricken, as expressly indicated in the order denying peti-

tion for rehearing; the three judges of the Circuit joined in such order striking the portions indicated from the opinion of Judge Mathews. The petition for the rehearing was denied.

This leaves the record with an opinion by the Hon. William Denman with no other judge concurring but with the dissenting opinion of the Hon. William Healy.

The opinion of Justice Denman holds that there is no evidence in the record to show that there was any necessity for the employment of counsel. The opinion of Justice Healy recites that the record is replete with such evidence. The record shows that receiver Lynch and his attorneys successfully defended litigation brought against the receiver by the Oklahoma trustee, and that such litigation was carried unsuccessfully by Jackson to the Circuit Court as well as to this the Supreme Court.

The decision in the first appeal May 10th, 1940; of the second appeal May 1st, 1941 (showing the dissenting opinion) and the amendment of June 30th, 1941, are set out in the appendix.

Jurisdiction.

The judgment of the Circuit Court of Appeals for the Ninth Circuit was filed May 1st, 1941. A petition for rehearing was filed and the concurring opinion of Justice William Denman was withdrawn on June 30, 1941.

Prayeth. The opinion of Justice Clifton Mathews was amended June 30, 1941. The petition for rehearing was denied June 30, 1941.

Prayeth. This petition for writ of certiorari is filed within three (3) months after the filing of said opinion and the denial of the petition for rehearing.

The jurisdiction of this Court is invoked under Section 240, Subdivision (a) of the Judicial Code, 28 U. S. C. A. 347.

Statement of the Case.

The essential facts of the case at bar are stated in the accompanying petition for a writ of certiorari and in the interest of brevity are not repeated herein.

Specification of Errors.

The Circuit Court of Appeals for the Ninth Circuit erred in each of the following particulars:

1. In rendering a decision in which three justices participated but in which one opinion by one justice was for reversal, one opinion originally concurred was withdrawn and one opinion was dissenting, leaving no majority of the Court deciding the issues.

2. The opinion purporting to be the majority of the Court is in conflict with and violates the spirit and the letter of the law heretofore universally laid down by all Circuit Courts, including the Ninth Circuit Court, that the fixing of attorneys' fees is a discretionary matter for the trial court and will not be disturbed by the appellate court, except for abuse of discretion or an obvious error of law and there was no such exceptions in the case at bar.

3. The opinion is erroneous in holding that appointed officers of the Court, a receiver, and his attorneys, must at their peril obey or disobey the orders made by the Court of their appointment on petitions for instruction, said decision being contrary to and in conflict with the established law and practice.

4. The opinion and decision is erroneous in reversing the finding of the lower court that it has not been imposed upon nor deceived when no evidence to the contrary had been introduced. The trial court having made the finding upon clear, undisputed, credible evidence.

5. The opinion is erroneous in holding that the trial court could not exercise its discretion under General Order 44, which expressly permits the Court to exercise discretion under the clause reading:

> "If without disclosure any attorney acting for a receiver or trustee or debtor in possession shall have represented any interest adverse to the receiver, trustee, creditors or stockholders in any matter upon which he is employed for such receiver, trustee, or debtor in possession, the court may deny allowance to the receiver or trustee if it shall appear that he failed to make diligent inquiry into the connections of said attorney."

6. The opinion is erroneous in holding that an attorney for petitioning creditors represents interests adverse to a receiver in bankruptcy who is merely a custodian.

7. The opinion purports to contradict its former decision, and for a second time to review questions already decided by the same Court, in the same case, in a prior appeal.

A final determination of these questions is essential to the orderly and uniform administration of bankruptcy cases. It is involved in almost every bankruptcy case of any complexity where the receiver or the trustee petitions the Court of his appointment for instructions as to his conduct in doubtful and complicated matters. Never before has any appellate court cast any doubt at all upon the right of a receiver or trustee and his counsel to carry out the orders of the Court of their appointment where such orders were made upon petitions for instruction duly and regularly filed. In the instant case, the decision of the Ninth Circuit places such appointed officers and their attorneys in a position of acting at their peril.

Respectfully submitted,

LEONARD J. MEYBERG,
Counsel for Petitioners.

RUPERT B. TURNBULL,
Of Counsel for Petitioners.

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In the Matter of

LEONARD J. WOODRUFF,

Bankrupt.

P. M. JACKSON, Trustee in Bankruptcy,

Appellant and Respondent,

vs.

E. A. LYNCH, Receiver in Bankruptcy,

Appellee.

E. A. LYNCH, Receiver, RUPERT B. TURNBULL and LEONARD J. MEYBERG, his Attorneys,

Petitioners.

ARGUMENT AND AUTHORITIES IN SUPPORT OF PETITION.

1. By the Withdrawing of the Concurring Opinion of Denman, C. J., There Remains Only the Opinion of the Hon. Clifton Mathews for Reversal and the Dissenting Opinion of Hon. William Healy to Sustain and Confirm the Opinion of the Lower Court.

Under the order of June 30, 1941, on petition for rehearing occurs the order:

> "The concurring opinion of Denman, C. J. is ordered withdrawn, William Denman, C. J."

This leaves, therefore, only the amended opinion and the dissenting opinion of the two judges named therein. Leaves no majority of the Court deciding any matter. All three judges, however, did join in the order amending the opinion of Judge Mathews.

2. Upon the First Appeal Every Question Was Raised, Fully Considered and Decided. Those Questions That Appellant Could Have Raised, But Failed to Present Are Waived and Can Not be Subsequently Urged.

Jackson v. Irving Trust Co., 310 U. S. p. 621, 85 Law. Ed. p. 10;

Titus v. Wallick, 306 U. S. 282.

After the decision upon the first appeal, it became the law of the case and no question remained to be decided.

Thompson v. Maxwell Land Co., 168 U. S. 451, 18 S. Ct. 121, 42 L. Ed. 539.

When the case again reached the Court below after the first appeal, all questions were concluded, except for the Court to designate the amount of the fees to its receiver and to its attorneys.

This is all that the Court did. Then the appellants herein objected to the amount of the fees, and filed this appeal, setting out therein every question that had been raised in the first appeal, and also raised new points that could and should have been urged in the former appeal.

This procedure is very unusual and a final determination of this question is essential to the orderly and uniform administration of appellate procedure.

3. In Almost Every Involuntary Proceeding in Bankruptcy Where a Receiver Is Appointed, it Is Upon the Request of the Petitioning Creditors. When the Receiver Requires Legal Advice, the Courts Appoint the Same Attorneys for the Receiver.

This always has been the practice, and it has always been considered that the interests of a receiver and the interests of a creditor are not adverse. This is a question that is presented in the bankruptcy courts daily and this Court should decide it, so that the matter may be forever settled.

4. The First Opinion of the Circuit Court of Appeals for the Ninth Circuit Is in Accord With the Law as Expressed by the Other Circuit Courts of Appeal, Particularly the Third Circuit (Loesser v. Dallas, 102 Fed. 909), the Eighth Circuit (Fidelity Trust Company v. Gaskell, 195 Fed. 865), the ..... Circuit (Kirker v. Owings, 98 Fed. 511), the Second Circuit (In Re Isaacson, 174 Fed. Reporter 406; Butler v. Ellis, 45 Fed. Reporter 2, 951, p. 953).

This Court has expressed itself on the subject in *Babbitt v. Deutcher*, 216 U. S. 101, putting with the approval the opinion of Justice Bradley in the case of *Sherman v. Bingham.*

> "In the courts of the United States this ancillary jurisdiction may be exercised though it is not authorized by any statute. The jurisdiction in such *cases arises out of possession of the property,* and is exclusive of the jurisdiction of all other courts although otherwise the controversy would be cognizable in them. *Murphy v. John Hoffman Co.,* 211 U. S. 562, 569."
>
> *Butler v. Ellis,* 45 Fed. (2d) 951, at p. 953.

"There the rule is no different, we think, in bankruptcy proceedings where the court of ancillary jurisdiction is proceeding under the bankruptcy statute. The leading case on the subject is Fidelity Trust Company v. Gaskell (C. C. A. 8th), 195 Fed. 865, 871, in which the late Judge Sanborn went into the matter very fully and stated the rule applicable as follows: 'A proceeding in bankruptcy is a proceeding in equity, and a district court sitting in bankruptcy, whether it is exercising its primary or its ancillary jurisdiction, is a court of equity. It is an established principle of equity jurisprudence that whenever a court of chancery takes into its legal custody, and thereby withdraws and withholds property from replevin, attachment, or other legal proceedings, it hears and adjudges the claims to the title and to legal and equitable liens upon the property of all parties who intervene in the suit, etc. . . ."

Butler v. Ellis, supra.

This case of *Butler v. Ellis, supra,* being a decision in the Circuit Court of Appeals for the Second Circuit, directly decided the following matters:

First, that a district court could seize and had seized property of the bankrupt, which property was within the court's territorial jurisdiction;

Second, that that court had jurisdiction to determine the liens against the property within its jurisdiction, and had jurisdiction to fix the amount of allowance for compensation to its receiver and to the attorneys for its receiver;

Third, that the court could order the sale of sufficient of the property within its territorial jurisdiction to pay such claims, liens, fees and costs of administration.

The Court in its opinion said:

"It is unthinkable that in authorizing the district courts to exercise ancillary jurisdiction in aid of a receiver or trustee in bankruptcy appointed in another jurisdiction, it was intended that these courts should do no more than seize property designated by the officer of the foreign court, and without hearing those who claim the property or an interest therein, turn it over to be administered in a jurisdiction hundreds of miles removed from the residence of the claimants. The first duty of the court is to do justice; and it is manifest that when through its receiver it lays its hands on property and thus renders it impossible for any other court to determine the ownership thereof or of the right of property therein, justice requires that it should itself hear and pass upon the claims of those who assert that the property belongs to them and not to the bankrupt.

Butler v. Ellis, supra.

"On the third question, however, we think that the learned judge below was in error in confirming a sale of the property and in allowing fees to the receiver and attorneys, without giving notice to creditors or observing the limitations on allowance prescribed by the Bankruptcy Act. * * * And the case will be remanded to the end that notice may be given to creditors of the sale, and proposed confirmation and the application of receiver, commissioner, and counsel for allowance. The court need not order a resale of the property unless after notice to creditors it shall appear that the amount of the bid is grossly inadequate. * * * In making allowances, the limitation of statute referred to and the requirement of General Order No. 42 should be observed."

Butler v. Ellis, supra.

In the case of *In re Einstein*, 245 Fed. 189, at 194, the Court in its opinion said:

> "It seems to me this reduces the question in issue to the proposition: Has this court the ancillary jurisdiction or power to establish and declare the existence of this lien, direct its payment from the proceeds of such sale, and also the legitimate expenses of the receiver, and direct the payment of the balance to the trustee in Florida? *Or* must this court, having determined that the proceeds of such sale belong to the estate in bankruptcy of Robert Einstein, direct the payment of the funds to the trustee in Florida and relegate the Gurnsey B. Williams Company and the receiver to the court of bankruptcy in Florida? The amendments of 1910 to the bankruptcy law confer ancillary jurisdiction on courts of bankruptcy where property of the bankrupt may be found. *Fidelity Trust Co. v. Gaskell* (109 Fed. 865) (also citing additional authorities). * * * It seems clear that it would be unjust for a court in bankruptcy, having the actual possession of the property with different claimants thereto residing in its jurisdiction, to send the property to some other district, it might be thousands of miles distant, and relegate the parties to that court."

AUTHORITY TO FIX COMPENSATION OF RECEIVER AND ATTORNEY FOR RECEIVER.

In the case of *In re Isaacson* (C.C.A. 2d), reported in 174 Federal Reporter at 406, a petition in involuntary bankruptcy was filed in the Southern District of New York, and a receiver was appointed; the receiver took possession of two places of business of the bankrupt; thereafter a petition in bankruptcy against the same bankrupt was filed in another district, and adjudication followed.

An order was made under General Order No. 6, by which the proceedings were ordered transferred to the jurisdiction last in point of time. Petitions were presented to the First District Court for allowances for the receiver and his attorneys, to wit, the receiver first appointed, and for the allowance of the accounts of the receiver first appointed. It was contended there was legal error in the first court's fixing the amount of allowance and directing payment thereof. The question of jurisdiction was raised, and the opinion in that case reads:

> "We cannot assent to the proposition that the court which appointed the receiver and for which his services were rendered has not jurisdiction to examine into the nature and extent of those services, and to determine what is a proper compensation therefor. Technically, that court has no jurisdiction to order the receivers appointed *by another court* to make disbursements out of the fund in their hands, and in that particular the order of October 27, 1908, is modified; but the bankruptcy court in the Eastern District will undoubtedly give full faith and credit to the determination of the court in the Southern District as to the value of the services rendered by an officer of that court to that court, and will instruct its own receivers accordingly. * * *" (With the modifications above indicated, the order is there affirmed.) (Italics ours.)
>
> *In re Isaacson, supra.*

In *Fidelity Trust Co. v. Gaskell*, 195 Fed. 865, at page 874, the Court says:

> "The suggestion that such a court may not fix and pay the compensation and expenses of its receiver out of the proceeds of the property he seizes and converts into money under its direction, because the amendment of Section 2 of the Bankruptcy Law or the Act

of June 25, 1910, provides that notice to creditors shall be given before the compensation of the receiver shall be fixed, loses its force when it is considered that by the same Act notice to creditors of the sale of the property of a bankrupt's estate is also required to be given. (36 Stats. 412, Secs. 9 and 9½, page 841.) And while this question is not here for adjudication in this case, we are unwilling by silence to intimate any assent to a rule that a court appointing a receiver in the exercise of its ancillary jurisdiction in bankruptcy has not preliminary power to pay the compensation and its legitimate expense out of any funds in its hands belonging to the estate of the bankrupt."

In the case of *Loeser v. Dallas* (C. C. A. 3rd Circuit), 192 Fed. 909, it was held that, as between a district court in Ohio and a district court in the Western District of Pennsylvania, the Court appointing the receiver had jurisdiction to settle the receiver's accounts, and that the receiver was not bound to account to the court of primary jurisdiction providing notice of the hearing of his accounts was given. The Court said:

"The amendment of June 25, 1910, to the bankruptcy law, providing for ancillary proceedings in bankruptcy, simply recognized by statute a practice which courts in bankruptcy in pursuance of principles of equity and comity had theretofore generally exercised. In the nature of things an ancillary receiver must be subject alone to and obey the orders of that court of which he is an officer. So obeying, it follows that to it alone he must account. Any other course would breed confusion in administration and go far toward making the exercise of ancillary jurisdiction impracticable: but if a court in pursuance of comity undertakes to exercise ancillary jurisdiction by administering local assets which it alone has power and

jurisdiction to administer, it follows that its hand must be free to administer by its own officer and to exact from him the full measure of duty. Such effective work it can only secure from an officer answerable to it alone. *Kirker v. Owings*, 98 Fed. 511, 39 C. C. A. 132; *Sands v. Neely*, 88 Fed. 133, 31 C. C. A. 424; *In re Isaacson*, 174 Fed. 406, 98 C. C. A. 614; *Ames v. U. P. Ry. Co.*, 60 Fed. 966. * * * As this petition has subjected the ancillary receiver to the expense of contesting the petition in this court, the court below is authorized to make such proper reimbursing allowance for such expense to the receiver from the funds in his hands as it deems proper. The order of the district court is affirmed with costs, and the record will be remanded with instructions to that court to allow said costs and a reasonable counsel fee to the ancillary receivers counsel for his services in this court, to be paid out of the balance of the monies appearing by his report to be in the hands of said receiver."

Loeser v. Dallas, supra.

Respecting the district courts and their respective territorial limits, the Circuit Court of Appeals for the 8th Circuit, in the case of *Fidelity Trust Co. v. Gaskell*, said:

"Under it these courts must appoint their own receivers, must guard them against wrongful action and consequent liability, and must direct the course that they must pursue. Conscience, good faith, and reasonable diligence alone must move courts of equity to action. They may not be divested of their judicial functions and made mere catspaws to do the will of private parties or public officers even by legislative action, much less by mere construction. * * * That Act and those decisions are that the district courts sitting in bankruptcy and consequently in

equity have ancillary jurisdiction in bankruptcy proceedings pending in other districts."

Id.

"A court exercising ancillary jurisdiction acts independently of the court of primary jurisdiction or of its officers, and for itself. It appoints its own receiver, generally the same person appointed receiver by the court of primary jurisdiction, but in the seizure, management, sale and distribution of the property seized within the territorial limits of its district of which it takes the legal custody, this receiver is and must be governed by its orders exclusively."

Id., page 874.

THE DISTRICT COURT FOR THE SOUTHERN DISTRICT OF CALIFORNIA PROPERLY EXERCISED ITS JURISDICTION OVER PROPERTY OF THE BANKRUPT WITHIN ITS TERRITORIAL LIMITS, WHICH PROPERTY WAS NOT SCHEDULED BY THE BANKRUPT IN HIS VOLUNTARY OKLAHOMA PROCEEDINGS.

Under the Bankruptcy Act the bankrupt can be adjudicated in the place where he has *either* his residence, his domicile, or his principal place of business.

"A district court of the United States, sitting as a court of bankruptcy, is a court of limited jurisdiction. Limitations exist as to subject matter; as to territory; as to residence and occupation of the debtor to be adjudicated; * * * and consent cannot confer jurisdiction over subject matter. The express provisions of the statute and necessary implication are controlling."

Nixon v. Michaels, 38 Fed. (2d) 420.

"He was a sojourner merely, and not a resident, of East St. Louis. We look upon this transaction as an imposition upon the jurisdiction of the court. The Congress did not intend *that one may select any court of bankruptcy which he pleases in these broad United States,* and be enabled, through a pretentious removal to the district of that court, to obtain his discharge from his debts. To allow that to be done would open the door to grave frauds upon creditors, which we are not disposed to countenance." (Italics ours.)

In re Garneau, 11 A. B. R. 679, 127 Fed. 677 (C. C. A., Ill.), cited by *Remington on Bankruptcy,* Vol. 1, p. 71; also citing *In re Sutter,* 46 A. B. R. 267, 270 Fed. 248.

The alleged bankrupt cannot confer jurisdiction upon a court not having jurisdiction of the subject matter or of the person.

"But assuredly, neither consent nor waiver can confer jurisdiction in the bankruptcy court of one district to adjudge bankrupt a debtor not resident, domiciled or having his principal place of business therein, although the ascertainment of such jurisdictional fact must be left in the same court for determination and its determination may not be subject to collateral attack."

Remington on Bankruptcy, Vol. 1, p. 72.

"An established domicile is presumed to continue down to the filing of the petition, in the absence of proof to the contrary. These limitations as to residence, domicile and principal place of business are jurisdictional, pertaining to jurisdiction over the subject matter; and they cannot be waived."

Remington on Bankruptcy, Vol. 1, p. 76, citing authorities heretofore quoted.

The District Court for the Southern District of California exercised its jurisdiction over property of the bankrupt within its territorial jurisdiction limits; (1) Because a bankruptcy proceeding purporting to be a primary petition had been filed in its jurisdiction; (2) by the order of Judge James appointing a receiver for the California properties; (3) by an order of Judge McCormick ordering the receiver to examine the bankrupt in Oklahoma in aid of the proceedings in California; (4) by the order of Judge Cosgrave staying the transmittal of the California proceedings records to Oklahoma *only* until the California court should obtain the report and account of its own receiver, to wit, the appellee E. A. Lynch.

The latter delay was necessary to determine what property said receiver had reduced to possession in California, to approve or disapprove the correctness of the receiver's account and expenditures, and to provide for the receiver's compensation rather than send him back two thousand miles to Oklahoma to have his account settled and allowed.

In no other manner could the judges of the California District Court control their own officers, the Receiver E. A. Lynch being only "the long arm of the court" by and through which the court acts.

THE JURISDICTION IN THIS CASE IS EITHER PRIMARY OR ANCILLARY. IF PRIMARY, THE FOLLOWING APPLIES:

In June, 1910, Congress amended the Bankruptcy Act so that it read that the district courts

> "are hereby invested within their respective territorial limits as now established or as they may be hereafter

changed with such jurisdiction at law and in equity as will enable them to exercise original jurisdiction in bankruptcy proceedings in vacation, in chambers, and during their respective terms, as they or now or may hereafter be held. * * *"

In the case of *Babbitt v. Dutcher,* 216 U. S. 101, Chief Justice Fuller delivered the opinion of the court and quoted with approval the opinion of Justice Bradley in the case of *Sherman v. Bingham* (Supreme Court) as follows:

"'Their jurisdiction is confined to their respective districts, it is true, but it extends to all matters and proceedings in bankruptcy without limitation. When the act says that they shall have jurisdiction in their respective districts, it means that the jurisdiction is exercised in their respective districts, each court within its own district may exercise the powers conferred; but those powers extend to all matters of bankruptcy without limitation. There are, it is true, limitations elsewhere in the act, but they affect only the matters to which they relate. * * *'

"But the exclusion of other district courts from jurisdiction of these proceedings does not prevent them from exercising jurisdiction in matters growing out of or connected with that identical bankruptcy so far as it does not trench upon or conflict with the jurisdiction of the court in which the case is pending. * * * That the courts of such other districts may exercise jurisdiction, in such cases, would seem to be the necessary result of the general jurisdiction conferred upon them, and is in harmony with the scope and design of the act."

Babbitt v. Dutcher, supra.

IF THE JURISDICTION IN THIS CASE IS ANCILLARY, THE FOLLOWING APPLIES:

The amendment in 1910 above referred to continued, under section 2, subdivision 20, that the courts are invested within their respective territorial limits to

> "exercise ancillary jurisdiction over persons or property within their respective territorial limits in aid of a receiver or trustee appointed in any bankruptcy proceedings pending in any other court of bankruptcy."
>
> *U. S. Compiled Statutes,* 1901, p. 3420, as amended by Act June 25, 1910; *U. S. Compiled Statutes* Supp. 1911, p. 1491.

A DISTRICT COURT MAY NOT EXERCISE ITS POWER OUTSIDE ITS RESPECTIVE TERRITORIAL LIMITS.

In the case of *Fidelity Trust v. Gaskell,* 195 Fed. 865, at page 871, the Court said:

> "Moreover, it seems to be settled by the decisions in Babbitt v. Dutcher, and other cases, that the limitation of section 2 of the Bankruptcy Act of the jurisdiction granted to the district courts in bankruptcy to 'other respective territorial limits' restricts the exercise of the power of a district court in which a petition in bankruptcy is filed to its own district, and that it may not enforce its process or its order for the delivery of property without the territorial limits of its district."

Citing:

Lathrop v. Drake, 91 U. S. 516, 517, 23 L. Ed. 414;

Babbitt v. Dutcher, 216 U. S. 102, 110, 30 Sup. Ct. 372, 54 L. Ed. 402, 17 Ann. Cas. 969;

Staunton v. Wooden, 179 Fed. 61, 64, 102 C. C. A. 355;

In re Peiser (D. C.), 115 Fed. 199, 200;

In re Sutter Bros. (D. C.), 131 Fed. 654;

In re Benedict (D. C.), 140 Fed. 55;

In re Robinson (D. C.), 179 Fed. 724.

"It is therefore no longer true that one court, the court making the adjudication in bankruptcy, takes exclusive jurisdiction and alone collects and determines the titles to and liens upon the property wherever situated claimed as part of the estate of the bankrupt."

Fidelity Trust v. Gaskell, supra.

"A proceeding in bankruptcy is a proceeding in equity, and a district court sitting in bankruptcy, whether it is exercising its primary or its ancillary jurisdiction, is a court of equity. It is an established principle of equity jurisprudence that whenever a court of chancery takes into its legal custody, and thereby withdraws and withholds property from replevin, attachment, or other legal proceedings, it hears and adjudges the claims to the title and the legal and equitable liens upon that property of all parties who intervene in the suit or proceedings before it, in their

own behalf, and submit their claims to its adjudication."

Fidelity Trust v. Gaskell, supra.

The *Chandler Act,* effective September 22, 1938, definitely determined the controversy, if any, that existed prior to that date concerning the duties and powers of ancillary jurisdiction. Prior to the enactment of this act, there was a difference of opinion among the district and the circuit courts as to the right of the ancillary courts to sell assets, fix fees, and pay expenses of the ancillary estate; and prior to this act the weight of respectable authority was that the ancillary court *did have* such authority. The Chandler Act definitely settles the controversy and fixes upon the ancillary court the *duty* and the *right so to do.*

Section 2a, subdivision (20), reads:

"Exercise ancillary jurisdiction over persons or property within their respective territorial limits in aid of a receiver or trustee appointed in any bankruptcy proceedings pending in any other court of bankruptcy: Provided, However, That the jurisdiction of the ancillary court over a bankrupt's property which it takes into custody shall not extend beyond preserving such property and, where necessary, conducting the business of the bankrupt, the reducing the property to money, paying therefrom such liens as the court shall find valid and the expenses of ancillary administration, and transmitting the property or its proceeds to the court of primary jurisdiction; and * * *"

In *Elkins, Petitioner in the Matter of Madison Steele Co., Bankrupt*, 216 U. S. 115 (C. C. A. 2d Circuit), the Court ends its decision with the following answer to its own question:

> "Have the respective district courts of the United States sitting in bankruptcy ancillary jurisdiction to make orders and issue process in aid of proceedings pending and being administered in the district court of another district? On the authority of Babbitt v. Dutcher, just decided (216 U. S. 102, *ante* 402, 30 Supreme Court Reps. 372), we answer both questions in the affirmative and it will be so certified."

That decision held that a district court under its primary jurisdiction can do all, each and every act under the Bankruptcy Act with respect to persons and property of the bankrupt within its jurisdiction, even though another bankruptcy of such person is pending in another district.

In the instant case, as appears from the record, the California Court appointed a receiver to preserve property within its geographical territorial jurisdiction, which property had *not* been scheduled by the same bankrupt in his Oklahoma proceedings. The justification in fact for this appears affirmatively in the record and is apparently conceded by the petitioner as in his opening statement in his petition for certiorari herein before this Court in the former appeal, he says:

> "As it is not questioned that the receivership was necessary to conserve and protect the assets of the bankrupt within the Southern District of California, it is unnecessary to elaborate, etc., etc. * * *."
> (Page 4, Petition for Writ of Certiorari herein.)

THERE WAS NO FINAL JUDGMENT IN THE OKLAHOMA DISTRICT COURT WHICH WAS DISREGARDED.

According to the petitioner both the District Court in the Eastern District of Oklahoma and the District Court for the Southern District of California had equal rights to entertain the bankruptcy proceedings of Woodruff, Oklahoma on principal place of business, California on residence and domicile. Until the Oklahoma Court made its order in October, 1939, under General Order 6, which is based on the assumption as provided by law that if two or more courts exist who have jurisdiction, then either of these courts can preserve the property of the bankrupt within its geographical and territorial jurisdiction, and so did.

The California Court protected the assets in California by receiver in July, 1939. The Oklahoma Court waited until after the election of the Trustee. When the Oklahoma Court made its order under General Order 6 in October, 1939, ordering the matters consolidated, the California Court did not attempt thereafter to proceed with the administration of the estate. All it did was to require of its own officer, its own long arm, its own receiver, an accounting as to what property he had taken, what expenses he had incurred; otherwise, the Court could not have properly ordered the Receiver to deliver the property to the Oklahoma Court.

The first decision of the U. S. Circuit Court of Appeal was clearly correct. A copy thereof is in the Appendix attached hereto.

5. Appellate Courts Have Established and Maintain the Universal Rule—No Interference With Discretionary Acts of Trial Courts, Such as Fixing of Fees and Allowances, Unless a Clear Abuse of Discretion or an Obvious Mistake of Law Appears in the Record.

As was stated in the case of *Calhoun et al. v. Stratton et al.* (C. C. A. 6), 61 Fed. (2d) 302, 22 A. B. R. (N. S.) 392, at page 395:

> "Attorney fees cannot be fixed with mathematical certainty. They are to be determined in the exercise of judicial discretion. *We cannot interfere unless there* has been a *clear abuse of discretion or an obvious mistake of law.*"

See, also, *In re Grant* (C. C. A. 2), 238 Fed. 132, 38 A. B. R. 210, where the Court said:

> "In a proceeding in bankruptcy there are many matters which are not governed by a fixed rule, but are confided to the sound judicial discretion of the judge. His decision in such cases may be brought before the Circuit Court of Appeals for review. *But the Appellate Courts have established the rule* that in such cases they will not reverse unless the decision below was unmistakably wrong or unless a plain abuse of discretion is shown. *In re S. B. Judkins Company* (C. C. A., 1st Cir.), 30 Am. B. R. 529, 205 Fed. 892, 124 C. C. A. 205; Black on Bankruptcy, sec. 48."

The Circuit Court of Appeals for the Ninth Circuit, in the case of *Maryland Casualty Co. v. Buffum*, decided December 3, 1934 (74 Fed. (2d) page 289), stated as follows:

> "In determining a reasonable fee for the services rendered by the attorneys it was necessary to con-

sider the time spent, the intricacy of the questions involved, the size of the estate, the opposition encountered, the result achieved, the opinion evidence touching the reasonableness of the fee, and the economical spirit of the Bankruptcy Act itself. The District Court accepted the findings of the referee and approved the allowances made. We conclude that the evidence is sufficient in fact and inference to show that *there was no manifest abuse* of discretion by the court. *Calhoun v. Stratton* (C. C. A. 6), 61 Fed. (2d) 302; *In re Irwin* (C. C. A. 3), 174 Fed. 642."

In the case of *In re American Range and Foundry Company*, 41 Fed. (2d) 845, 7 A. B. R. (N. S.) 170 (D. C. Minn.), the Court said:

"There was evidence before the referee which would have justified a greater allowance than he made to the attorneys for their fees. *But it is not the business of this court to retry this question* or to *substitute its judgment for that of* the referee where there is nothing to show that he did not fairly pass on the question in view of the evidence before him, or that there is any mistake of law. It cannot be said that the allowance is now so inadequate as to justify a conclusion that the referee was influenced by anything other than the facts as he had them before him. The business of fixing attorneys' fees in bankruptcy matters is one peculiarly for the referee. If this court *should make it a practice* to pass upon the question of the reasonableness of the allowances made by referees for attorneys' fees, it would mean that it would have to pass upon the question in connection with almost every large bankruptcy."

And the same opinion refined:

> *"There is nothing more difficult nor embarrassing than to appraise the value of professional services. The appraisal must be based largely upon the personal opinion of the one who makes it."*

6. Answer to the Factual Contentions Concerning the Amount of the Attorneys' Fees Allowed.

A judgment had been rendered in the District Court, Southern District of California, in favor of one Heiser and against Woodruff for $278,000.00. Three days before the stay of execution on that judgment expired, Woodruff appeared in far off Oklahoma in the little town of Ardmore and filed a voluntary bankruptcy proceeding with schedules. In those schedules he recited that he had paid his attorneys in that bankruptcy proceeding, Messrs. Champion, Champion and Fischl of Ardmore, Oklahoma, a fee of thirty thousand dollars ($30,000.00), and had paid them by transferring to them by bill of sale the four Woodruff antique stores at Los Angeles, California, located in a building owned by the bankrupt.

This is the personal property which was inventoried and appraised at $84,643.00. [Tr. p. 144.] Other than this listing of the stores, they do not appear in Schedule B as assets. Woodruff, the bankrupt, also failed to schedule a stock of raw sapphires, raw opals and raw zircons stored at the Colyear warehouse on South San Pedro street, Los Angeles, estimated value thirty thousand dollars ($30,000.00) in the name of Francis Cobb, attorney for the trustee herein and assigned by him to the son of the bankrupt. He also failed to schedule real property, consisting of store buildings that housed the Woodruff antique stores, which real property has been appraised by

the appraisers in the bankruptcy court of Los Angeles as of value approximately fifty-three thousand dollars ($53,000.00). [Tr. p. 145.] Other assets of a minor nature he also omitted, including a home on Inverness, which he testified cost ninety-seven thousand dollars ($97,000.00); other real estate $8500.00, also other personalty of a comparatively minor nature.

The District Judges at Los Angeles made their respective orders: one, appointing Lynch receiver; two, authorizing the United States Marshal to give aid to the receiver to put him in possession of certain property; three, authorizing the employment of counsel.

It was immediately discovered that there was no inventory of the antique stores; that genuine antiques, reproductions, and the grossest imitations lay side by side; that there were two thousand paintings and pictures, some of them genuine, some restorations and some cheap imitations. There was no insurance on anything. There had been seventy-five pieces of litigation in which the bankrupt had engaged in Southern California. There were judgments against the bankrupt and uncollected judgments in his favor. There were no books and the bankrupt testified he had none and has produced none.

The bankrupt was claiming under oath and asserting that fifty thousand dollars ($50,000.00) worth of personal property had been stolen from his store. [Rep. Tr. p. 224.]

The officials of the Oklahoma District Court in the bankruptcy proceeding made no attempt whatever to file any ancillary proceedings or to take physical possession of any of the California properties nor to insure them, inventory them, or marshall assets. They, including Mr.

Jackson as trustee in Oklahoma, permitted Mr. Lynch to proceed and protect the property.

Woodruff had been representing under oath to the District Court in Southern California in the *Heiser v. Woodruff* case that his residence was in the Southern District of California and that he only left California on cattle-buying trips. Woodruff was representing under oath immediately thereafter to the Oklahoma District Court that he was a resident of Oklahoma and had his principal place of business there.

The property in California was extremely valuable, and Mr. Fischl, one of the attorneys for the bankrupt Woodruff in Ardmore, Oklahoma, after obtaining from the bankrupt, immediately preceding the filing of the voluntary proceeding, a bill of sale for the $84,000.00 worth of personalty in the antique stores at Los Angeles, boarded an airplane and came west to Los Angeles to personally, as his own property, take over the $84,000.00 worth of stock in trade in payment of his $30,000.00 attorney's fee, to-wit, the amount which Woodruff had sworn in his Oklahoma schedules that he had agreed to pay to his Ardmore attorneys for their services in the voluntary bankruptcy proceeding there.

On arriving in California, the attorney Fischl of Oklahoma was informed through the attorneys for the receiver that there existed in California at the time of his bill of sale, Section 3440 of the Civil Code, which makes change of possession and continued possession thereafter an absolute necessity to the valid transfer of a stock in trade of a merchant, and that lacking such pre-requisite, the conveyance to him would be by the law deemed fraudulent as to the creditors of Mr. Woodruff, his client, and also would be deemed fraudulent as against a person upon

whom the affairs of the debtor devolved in trust for the benefit of others, to-wit, the perfect definition of a trustee in bankruptcy.

Mr. Fischl of Oklahoma was also informed that the District Court for the Southern District of California was entertaining a primary bankruptcy proceeding, and had appointed a receiver, Mr. Lynch, who was in actual possession of the property called for in Mr. Fischl's bill of sale. [Rep. Tr. pp. 218, 219, 220.]

It was the advice given the receiver by his attorneys Meyberg and Turnbull that saved this property for the bankrupt estate.

7. The Findings and Orders of the District Court in Allowing Compensation Were Not in Violation of General Order No. 44.

Appellant in his opening brief in said appeal cites the cases of *In re H. L. Stratton, Inc.*, 51 Fed. (2d) 984, 987; *In re Rogers-Pyatt Shellac Co.*, 43 Fed. (2d) 863, and *In re G. W. Giannini, Inc.*, 90 Fed. (2d) 445. From page 38 to and including page 41 of appellant's opening brief, the appellant refers to these three cases to support his contention that the District Court in this case exceeded its power by allowing compensation to the attorneys for the receiver herein for the reason that the attorneys had failed to set out in their original affidavit a statement as to their representation of the petitioning creditor in the commencement of the proceeding which appeared in the file.

Appellant indirectly infers that this is required by General Order No. 44, and appellant quotes excerpts from these three cases and seeks to apply them as decisions decisive of this point.

Upon reading these cases it appears that *all* of them were decided by the U. S. Circuit Court of Appeals of the Second Circuit, and that these decisions are *all* based upon a local rule there adopted by the U. S. District Courts for the District of New York. (Local Bankruptcy Rules of the District Court for the Southern District of New York, Rule 8.) This rule is set out at the bottom of page 446 of 90 Federal Reporter (2d Series), *In re G. W. Giannini, Inc.* It provides in part:

> "No attorney shall be retained by the receiver or trustee unless his affidavit, annexed to the petition of the receiver or trustee, shall show, to the best of his knowledge in addition to the matters required by General Order 44, his business, professional or other connection, during one year prior and up to the date of the affidavit, with the bankrupt, the bankrupt's attorney, any creditor or any other person interested in the estate. No attorney shall be so retained if in the proceeding he has appeared for or acts for or holds proxies for the petitioner or other creditors or for any other person interested in the estate; nor shall his retention continue or he be paid for services out of the estate if during the proceeding he therein act for or hold proxies for, or if for services therein he accepts compensation from, any other creditor or person. The petition of the receiver or trustee for the retention of an attorney shall state at whose instance, if any, such retention is suggested, and the reasons for acting thereon."

The District Court for the Southern District of California has made no such supplemental rule or order. The only rule that it has made supplementing General Order No. 44 is Rule 82, which is as follows:

> "No receiver or trustee in bankruptcy heretofore or hereafter appointed or elected in any bankruptcy proceeding in this district, shall hereafter employ an attorney at the expense of the bankrupt estate except on the order of the Court or Referee, based on a petition showing the reasons and necessity for the employment and the name of the attorney it is proposed shall be employed. Attorneys employed in violation of this Rule shall receive no compensation."

In the case at bar now before this Court the receiver filed a petition for authority to employ counsel and fully complied with this Rule 82. [Tr. pp. 16, 17 and 18.] The affidavit of the attorney Leonard J. Meyberg [Tr. p. 19]; the affidavit of Rupert B. Turnbull [Tr. p. 20]; and the order of the Honorable William P. James authorizing the receiver to employ the said attorneys at the expense of the estate, fully comply with General Order No. 44 and the Local Rule No. 82 of the District Court.

Attention is further called to the Court that General Order No. 44 provides in part:

> "If without disclosure any attorney acting for the receiver or trustee or debtor in possession, shall have represented any interest adverse to the receiver, trustee, creditors or stockholders in any matter upon which he is employed for such receiver, trustee or debtor in possession, the court *may* deny the allowance of any fee to such attorney." (Italics ours.)

There was no evidence before the Court that the attorneys or either of them represented any adverse interest. The point has no place in this proceeding. Further, the said order provides that "the court may deny the allowance." In this present case no question was ever raised that would have justified the Court to deny any allowance to the attorneys, and the Court, after hearing the evidence and being fully advised in the premises, did make the allowance. Affidavits of counsel and receiver fully complying with the rules of this jurisdiction were filed and are in the record.

Counsel for appellant surely must or should have realized that the cases cited with which he deals at length in appellant's opening brief could not affect the point raised by him. But he sets out excerpts of these New York decisions in his opening brief. He must or should have known that instead of assisting the Court in properly deciding the questions involved, he merely misleads.

All the facts were disclosed to the Court on the appointing of the receiver and upon the ordering of the employment of counsel to the receiver. In the record previously presented to this Court in this matter of *Jackson v. Lynch,* No. 9401, it was stipulated that there was disclosed to Judge James, of the District Court at Los Angeles, the fact that there was pending another bankruptcy in Oklahoma at the time there was presented to Judge James the application for the appointment of a receiver. The record in this case [Tr. p. 245] shows

affirmatively and nowhere is it contradicted that Mr. Turnbull discussed the Heiser situation with the judges.

With respect to the trip to Oklahoma, and the charge that counsel were representing adverse interests, the record discloses that this matter was the subject matter of direct imparted information by Messrs. Turnbull and Meyberg with the District judges. This appears affirmatively and uncontradicted from pages 232 and 233 of the transcript.

Testimony of Mr. Turnbull:

> "The Witness: When the case was next filed, I conferred three times with Judge James and discussed with him the rather unique situation of having two primary bankruptcies. *I called his attention to the judgment in the Heiser case and what had occurred.* After Judge James left on his vacation, I was told by the clerk to take it up with Judge McCormick. I conferred with Judge McCormick several times particularly with reference to the situation we found with respect to no inventory and the difference in jurisdictional claims." (Italics ours.)

See also testimony of Mr. Turnbull [Tr. p. 258]:

> "A. Well, the first question that was important, because I discussed it with Judge James, and also discussed it with Judge McCormick, was the peculiar situation of having two primary jurisdictions, two courts exercising primary jurisdiction over different properties, the property in California being not the property that was scheduled in Oklahoma. And I

satisfied myself, starting with the Bankruptcy Act, and got the authorities which I used when I discussed with the Federal Judges, and with Mr. Lynch, and I checked the authorities, that since the abolishment of original jurisdiction in the Circuit Courts that the District Courts became solely courts of bankruptcy, and as such exercised jurisdiction within their geographical territorial limits independent of every other District Court, and as such there could be two or more primary jurisdictions, each exercising their equitable jurisdiction under the Bankruptcy Act, or, on their equity side, to preserve, care for, and marshal the assets within their jurisdiction."

The creditors' petition in the California District Court expressly showed that the petitioning creditor was Heiser. It showed him as an unsatisfied judgment creditor of Woodruff, under a judgment obtained in this very Court and the very petition over the signatures of Meyberg and Turnbull as his counsel, to-wit, attorneys for petitioning creditor and on their stationery.

The petition for the appointment of a receiver was made by the petitioning creditor Heiser and likewise showed plainly on its face that the attorneys for the creditor petitioning for the appointment of a receiver were attorneys Meyberg and Turnbull. The petition by receiver for the employment of counsel gave the names of the attorneys proposed to be employed and in addition, contained the respective affidavits of such attorneys, to-wit, the individual affidavits of Meyberg and Turnbull that

they did not represent any adverse interests. Such representations were and are true. There can be no adverse interest between a petitioning creditor and a receiver in bankruptcy appointed upon such petitioning creditor's request and where such receiver is a mere custodian, to hold the bankrupt's property until a trustee is elected.

The interest of Heiser's attorneys was to see that all of the assets in California not scheduled by Woodruff in his Oklahoma bankruptcy were sequestered by the United States District Court in Southern California for the benefit of all creditors of Woodruff. No one connected with the Oklahoma bankruptcy had shown any interest in them. They were valuable, there were no books pertaining to them. This was the exact interest of the receiver if he acted under the order made by the District Judge requiring him to seize the property of the bankrupt in California, inventory, insure, and care for it. [See creditors' petition for the appointment of receiver, Tr. pp. 8 to 12, both inclusive; see order appointing receiver, Tr. pp. 13 to 15, both inclusive. (Order by Judge James.)] [See petition by receiver for authority to employ counsel, Tr. pp. 16 to 18, both inclusive; see affidavit of attorney whose name is submitted for appointment, to-wit, affidavit of Leonard J. Meyberg, Tr. p. 19, and affidavit of Rupert B. Turnbull, Tr. p. 20, and see order authorizing the receiver to employ Meyberg and Turnbull (order of Judge James), Tr. p. 21.]

There was nothing unusual under the circumstances either in theory or in practice to the employment of said

counsel. It followed the usual custom in this district. There is no showing that the persons did not conduct themselves ably, properly, legally and ethically. There is an uncontradicted showing of intelligent, sustained faithful effort and necessary sequestering, preservation and protection of valuable assets in this jurisdiction wholly neglected by those in Oklahoma.

The interests of a creditor and a trustee in bankruptcy may become adverse, because the creditor's claim would eventually be considered by a trustee. However, a receiver in bankruptcy only holds and protects the property until a trustee is elected. It is to the interest of the creditor, that the receiver sequester all the property possible for the creditor's benefit.

It is the universal practice for petitioning creditors to petition for a receiver, and that when the receiver is appointed that the attorneys for these creditors become the attorneys for the receiver. There exists no way whereby the interests of these creditors and the interests of the receiver can become adverse.

Conclusion.

Petitioners adopt as their argument the dissenting excerpt from the opinion of the Honorable Circuit Judge, Healy, of the United States Circuit Court of Appeals, Ninth Circuit, as follows, to-wit:

> "On the matter of the entire disallowance of compensation for the attorneys I am not able to go along with my associates. If counsel had undertaken to

represent interests substantially adverse and had failed to disclose that fact to the court, their claim for fees ought to be disallowed; but such is not the case here. The lawyers represented a creditor, Heiser, whose claim against the bankrupt had been reduced to judgment prior to bankruptcy. While the bankrupt and the Oklahoma trustee were entitled to contend, and did contend unsuccessfully, that Heiser's judgment should be set aside, the receiver appointed merely to conserve assets had no duty in that respect and was not empowered by the court to pass on the validity of claims. In representing both the creditor and the receiver the attorneys did not, I think, act for substantially conflicting interests. Indeed the fact that they already had some knowledge of the bankrupt's property and affairs might well be thought to make them the logical choice as attorneys for a receiver whose business it was to forestall removal or other disposition by the bankrupt of his local assets.

"It seems to me hardly just to question the statement of the trial court that the facts were disclosed to it; and I believe it to be wholly unfair to the attorneys to assume that there was any concealment on their part or any real failure to disclose their connection with Heiser. The record is replete with evidence of the disclosure. It was on the petition of Heiser that the involuntary adjudication was made by the trial court, and the attorneys Meyberg and Turnbull signed the petition as attorneys for Heiser. Likewise it was this creditor who petitioned for the appointment of the receiver, and his petition is signed by these attorneys as counsel for Heiser. The order of the court appointing the receiver recites that it was made 'upon motion of Rupert B. Turnbull, attorney for said petitioner'. Indeed, from first

to last the record discloses on its face that these attorneys were counsel for Heiser, and the court could not but have been aware of that fact.

"Order 44 of the General Orders in Bankruptcy does not require the denial of fees to an attorney where the true facts are not disclosed in the petition for his appointment. It merely permits such denial. The spirit of the rules should be strictly enforced, but there is no justification for a purely mechanical application of it. Here although the disclosure was not made in the precise manner required by the rule, there was an actual and complete disclosure of the facts. Ordinarily, it would be only in the petition itself that opportunity would be given to make the disclosure, but here the situation was different.

"Where the trial court has authorized its receiver to employ counsel, I think an appellate court would rarely be justified in rejecting entirely the allowance of compensation because of its belief, after the fact, that an attorney was not necessary. I do not believe there is justification for that course here."

In view of all that appears herein and for the reasons herein specified it is respectfully prayed that this Honorable Court take jurisdiction in the premises.

Respectfully submitted,

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